

BANCROFT MUNICIPAL UTILITIES
INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

DECEMBER 31, 2007

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**BANCROFT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF BANCROFT, IOWA**

UTILITY OFFICIALS

| NAME | TITLE | TERM EXPIRES |
|----------------|------------------------|---------------------|
| Janice Wolf | Utility Official | January, 2012 |
| Tim Rowlet | Utility Official | January, 2008 |
| Phil Jaren | Utility Official | January, 2012 |
| Thomas Johnson | Utility Official | January, 2010 |
| Judy Vaske | Utility Official | January, 2010 |
| Pat Merron | Utility Official | January, 2010 |
| Tracy Elliott | Utility Superintendent | |
| Vickie Rahe | Utility Clerk | |
| Scott Buchanan | Attorney | |

INDEPENDENT AUDITORS' REPORT

To the Officials of
Bancroft Municipal Utilities
Bancroft, Iowa

We have audited the accompanying basic financial statements of Bancroft Municipal Utilities, a component unit of the City of Bancroft, Iowa, as of and for the year ended December 31, 2007, as listed in the table of contents. These financial statements are the responsibility of the Utility's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bancroft Municipal Utilities, a component unit of the City of Bancroft, Iowa, as of December 31, 2007, and the changes in its financial position and cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated December 31, 2007 on our consideration of Bancroft Municipal Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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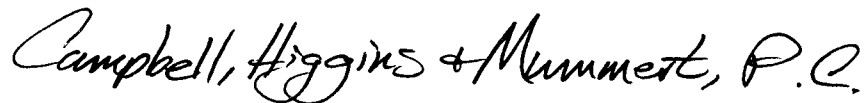
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Management's Discussion and Analysis and budgetary comparison information on pages 4 through 7 and 19 through 20 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Campbell, Higgins & Mummert, P.C." in a cursive, flowing script.

CAMPBELL, HIGGINS & MUMMERT, P.C.
Certified Public Accountants

December 29, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

Bancroft Municipal Utilities provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the year ended December 31, 2007. We encourage readers to consider this information in conjunction with the Utility's financial statements, which follow.

2007 FINANCIAL HIGHLIGHTS

- Operating revenues increased 40%, or approximately \$421,100, from 2006 to 2007, due mainly to a change in accounting for credits income in 2007. See note 1 to the financial statements for further details.
- Operating expenses increased 24%, or approximately \$241,700, from 2006 to 2007.
- Contributions and Transfers to the City of Bancroft and Others decreased 33% or approximately \$37,200 from 2006 to 2007.
- The Utility's net assets increased 4%, or approximately \$127,000, from December 31, 2006 to December 31, 2007.

USING THIS ANNUAL REPORT

Bancroft Municipal Utilities is a single Enterprise Fund and presents its financial statements using the economic resources measurement focus and accrual basis of accounting which is the same measurement focus and basis of accounting employed by private sector business enterprises. This discussion and analysis are intended to serve as an introduction to Bancroft Municipal Utilities basic financial statements. The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Utility's financial activities.

The Basic Financial Statements consist of a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets and a Statement of Cash Flows. These statements provide information about the activities of the Utility including resources held by the Utility but restricted for specific purposes by creditors, contributors, grantors or enabling legislation.

Notes to the Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the Utility's budget for the year.

REPORTING THE UTILITY'S FINANCIAL ACTIVITIES

The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets

One of the most important questions asked about the Utility's finances is "Is the Utility as a whole better or worse off as a result of the year's activities?" The Statement of Net Assets, and the Statement of Revenues, Expenses and Changes in Net Assets report information about the Utility's resources and its activities in a way that helps answer this question. These statements include all assets (restricted and unrestricted) and all liabilities using the accrual basis of accounting which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Utility's net assets and changes in them. The Utility's total net assets – the difference between assets and liabilities – is one measure of the Utility's financial health or financial position. Over time, increases or decreases in the Utility's net assets may serve as a useful indicator of whether the financial position of the Utility is improving or deteriorating. Other non-financial factors, such as changes in the Utility's customer base, changes in legislation and regulations, measures of the quantity and quality of services provided to its customers and local economic factors should also be considered to assess the overall financial health of the Utility.

The Statement of Cash Flows

The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash and cash equivalents during the reporting period.

FINANCIAL ANALYSIS OF THE UTILITY

The Utility's net assets are the difference between its assets and liabilities reported in the statements of net assets. The Utility's net assets decreased by \$126,956 (4.3%) from 2006 to 2007.

Assets, Liabilities and Net Assets

| | <u>2007</u> | <u>2006</u> |
|---|---------------------|---------------------|
| Assets: | | |
| Current Assets ----- | \$ 698,993 | \$ 568,212 |
| Net Capital Assets ----- | 2,766,749 | 2,766,499 |
| Other Assets ----- | 590,064 | 602,590 |
| Total Assets ----- | <u>4,055,806</u> | <u>3,937,301</u> |
| Liabilities: | | |
| Current Liabilities ----- | 375,319 | 283,770 |
| Long-Term Debt ----- | 600,000 | 700,000 |
| Total Liabilities ----- | <u>975,319</u> | <u>983,770</u> |
| Net Assets: | | |
| Invested in Capital Assets, Net of Related Debt ----- | 2,066,749 | 1,971,499 |
| Restricted ----- | 424,239 | 251,004 |
| Unrestricted ----- | 589,499 | 731,028 |
| Total Net Assets ----- | <u>\$ 3,080,487</u> | <u>\$ 2,953,531</u> |

Financial Analysis of the Utility (Continued)**Revenues, Expenses and Change in Net Assets**

| | <u>2007</u> | <u>2006</u> |
|---|---------------------|---------------------|
| Operating Revenues ----- | \$ 1,462,050 | \$ 1,040,911 |
| Operating Expenses ----- | <u>1,267,990</u> | <u>1,026,285</u> |
| Operating Income (Loss) ----- | 194,060 | 14,626 |
| Net Non-Operating Revenues (Expenses) ----- | <u>8,697</u> | <u>(2,554)</u> |
| Income (Loss) Before Contributions and Transfers ---- | 202,757 | 12,072 |
| Contributions and Transfers ----- | <u>(75,801)</u> | <u>(113,018)</u> |
| Increase (Decrease) in Net Assets ----- | 126,956 | (100,946) |
| Net Assets at Beginning of Period ----- | <u>2,953,531</u> | <u>3,054,477</u> |
| Net Assets at End of Period ----- | <u>\$ 3,080,487</u> | <u>\$ 2,953,531</u> |

BUDGETARY HIGHLIGHTS

Bancroft Municipal Utilities had a budget amendment which was approved on December 27, 2007. The amendment provided for a total of \$10,048 of additional expenses, contributions and transfers. The amendment also provided for an increase in total revenues of \$3,387. Even with this amendment, the Utility's total expenses, contributions and transfers for the year exceeded amounts budgeted by \$292,839.

CAPITAL ASSETS AND DEBT ADMINISTRATION**Capital Assets**

At December 31, 2007, the Utility had \$2,766,499 invested in capital assets, net of accumulated depreciation, as detailed in Note 4 to the financial statements. In 2007, the Utility acquired or constructed capital assets costing \$168,866, financed by cash and cash equivalents.

Debt Administration

At December 31, 2007, the Utility had \$700,000 in long-term debt compared to \$795,000 last year.

| | <u>2007</u> | <u>2006</u> |
|-------------------------------|-------------------|-------------------|
| 1999 Revenue Bond Issue ----- | <u>\$ 700,000</u> | <u>\$ 795,000</u> |

There have been no changes in the Utility's debt ratings during the past two years. More detailed information about the Utility's long-term liabilities is presented in Note 5 to the financial statements.

ECONOMIC FACTORS

The current condition of the economy in the state continues to be a concern for Utility officials. Some of the realities that may potentially become challenges for the Utility to meet are:

- Expenses, including the cost of power, continue to increase.
- Facilities at the Utility require constant maintenance and upkeep.
- Technology continues to expand and current technology becomes outdated, presenting an ongoing challenge to maintain up-to-date technology at a reasonable cost.

CONTACTING THE UTILITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide readers with a general overview of the Utility's finances and to show the Utility's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Utility's administration office at 107 E Ramsey, Bancroft, Iowa.

BASIC FINANCIAL STATEMENTS

**BANCROFT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF BANCROFT, IOWA**

**STATEMENT OF NET ASSETS
DECEMBER 31, 2007**

| Assets | | Liabilities | |
|---|------------------|---|----------------------------|
| Current Assets: | | Current Liabilities: | |
| Cash ----- | \$ 186,707 | Accounts Payable and Taxes Payable ----- | 102,238 |
| Certificates of Deposit ----- | 168,483 | Accounts Payable - City of Bancroft ----- | 26,678 |
| Accounts Receivable ----- | 131,710 | Other Payable - City of Bancroft ----- | 136,222 |
| Accounts Receivable - City of Bancroft ----- | 53,503 | Accrued Wages and Compensated Absences ----- | 4,219 |
| Accrued Interest Receivable ----- | 11,826 | Accrued Interest ----- | 3,149 |
| Inventories ----- | 142,401 | Meter Deposits ----- | 2,813 |
| Prepaid Expenses ----- | 4,363 | Current Maturities of Long-Term Debt ----- | 100,000 |
| Total Current Assets | <u>698,993</u> | Total Current Liabilities | <u>375,319</u> |
| Capital Assets: | | Long-Term Debt: | |
| Capital Assets ----- | 5,868,820 | Revenue Bonds ----- | 700,000 |
| Less Accumulated Depreciation ----- | (3,102,071) | Less Current Maturities of Long-Term Debt ----- | (100,000) |
| Net Capital Assets | <u>2,766,749</u> | Net Long-Term Debt | <u>600,000</u> |
| Other Assets: | | Total Liabilities | |
| Investments ----- | 154,234 | | <u>975,319</u> |
| Note Receivable ----- | 11,591 | | |
| Common Transmission System - Improvement Fund ----- | 182,722 | | |
| Restricted Bond Funds ----- | 241,517 | Net Assets: | |
| Total Other Assets | <u>590,064</u> | Invested in Capital Assets, Net of Related Debt ----- | 2,066,749 |
| | | Restricted for: | |
| | | Debt Service ----- | 241,517 |
| | | Capital Projects ----- | 182,722 |
| Total Assets | <u>4,055,806</u> | Unrestricted ----- | 589,499 |
| | | Total Net Assets | <u><u>\$ 3,080,487</u></u> |

BANCROFT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF BANCROFT, IOWA

Page 9
Exhibit B

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2007

Operating Revenues:

| | |
|--|------------------|
| Sales of Electricity ----- | \$ 1,032,618 |
| Neal 4 / NIMECA Credits and Steam Service Income ----- | 395,832 |
| Other Operating Revenues ----- | 33,600 |
| Total Operating Revenues | <u>1,462,050</u> |

Operating Expenses:

| | |
|---|------------------|
| Bad Debts ----- | 1,845 |
| Depreciation and Amortization ----- | 168,617 |
| Dues and Memberships ----- | 7,495 |
| Employee Salaries and Wages ----- | 153,451 |
| Employee Benefits ----- | 78,666 |
| Fuel and Oil ----- | 11,188 |
| Insurance ----- | 25,754 |
| Miscellaneous ----- | 5,977 |
| Office Expenses ----- | 17,892 |
| Professional Fees ----- | 10,443 |
| Purchased Power ----- | 479,061 |
| Neal 4 Fuel and Generation ----- | 224,614 |
| Rents ----- | 21,600 |
| Supplies and Maintenance ----- | 37,673 |
| Taxes - Property and Other ----- | 22,465 |
| Testing, Licenses and Inspections ----- | 1,249 |
| Total Operating Expenses | <u>1,267,990</u> |

| | |
|--------------------------------|----------------|
| Operating Income (Loss) | <u>194,060</u> |
|--------------------------------|----------------|

Non-Operating Revenues (Expenses):

| | |
|--|--------------|
| Interest Income ----- | 51,745 |
| Interest Expense and Bond Fees ----- | (43,048) |
| Net Non-Operating Revenues (Expenses) | <u>8,697</u> |

| | |
|---|----------------|
| Income (Loss) Before Contributions and Transfers | <u>202,757</u> |
|---|----------------|

Contributions and Transfers:

| | |
|--|-----------------|
| Contributions from (to) the City of Bancroft ----- | (19,490) |
| Contributions from (to) Others ----- | (2,100) |
| Transfers from (to) the City of Bancroft in Lieu of Property Taxes ----- | (54,211) |
| Total Contributions and Transfers | <u>(75,801)</u> |

| | |
|--|---------|
| Increase (Decrease) in Net Assets | 126,956 |
|--|---------|

| | |
|--|------------------|
| Net Assets at Beginning of Period | <u>2,953,531</u> |
|--|------------------|

| | |
|------------------------------------|----------------------------|
| Net Assets at End of Period | <u><u>\$ 3,080,487</u></u> |
|------------------------------------|----------------------------|

BANCROFT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF BANCROFT, IOWA

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Exhibit C

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2007

Cash Flows From Operating Activities:

| | |
|---|----------------|
| Cash Received from Customers ----- | \$ 988,950 |
| Cash Payments to Suppliers for Goods and Services ----- | (448,857) |
| Cash Payments to Employees for Services ----- | (237,937) |
| Net Cash Provided (Used) by Operating Activities | <u>302,156</u> |

Cash Flows From Non-Capital Financing Activities:

| | |
|---|-----------------|
| Contributions from (to) the City of Bancroft ----- | (18,312) |
| Contributions from (to) Others ----- | (2,100) |
| Transfers from (to) City in Lieu of Property Taxes ----- | - |
| Net Cash Provided (Used) by Non-Capital Financing Activities | <u>(20,412)</u> |

Cash Flows From Capital and Related Financing Activities:

| | |
|---|------------------|
| Purchase and Construction of Capital Assets ----- | (168,866) |
| Interest and Bond Fees Paid ----- | (43,448) |
| Principal Payments on Long-Term Debt ----- | (95,000) |
| Net Cash Provided (Used) by Capital and Related Financing Activities | <u>(307,314)</u> |

Cash Flows From Investing Activities:

| | |
|--|---------------|
| Purchases of Certificates of Deposit ----- | (430,838) |
| Proceeds from Maturities of Certificates of Deposit ----- | 466,806 |
| Proceeds from Redemption of Investments ----- | 10,432 |
| Note Receivable Principal Payments Received ----- | 4,113 |
| (Increase) Decrease in Common Transmission System - Improvement Fund ----- | (11,816) |
| Interest Received ----- | 52,065 |
| Net Cash Provided (Used) by Investing Activities | <u>90,762</u> |

| | |
|--|--------|
| Net Increase (Decrease) in Cash | 65,192 |
|--|--------|

| | |
|------------------------------------|----------------|
| Cash at Beginning of Period | <u>121,515</u> |
|------------------------------------|----------------|

| | |
|------------------------------|--------------------------|
| Cash at End of Period | <u><u>\$ 186,707</u></u> |
|------------------------------|--------------------------|

BANCROFT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF BANCROFT, IOWA

Page 11
Exhibit C

STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2007

Reconciliation of Operating Income (Loss) to Net Cash

Provided (Used) by Operating Activities:

| | |
|--|---------------------------------|
| Operating Income (Loss) ----- | \$ 194,060 |
| Adjustments to Reconcile Operating Income (Loss) to Net Cash | |
| Provided (Used) by Operating Activities: | |
| Depreciation and Amortization ----- | 168,617 |
| (Increase) Decrease in: | |
| Accounts Receivable ----- | (27,634) |
| Accounts Receivable - City of Bancroft ----- | (51,178) |
| Inventories ----- | (12,974) |
| Prepaid Expenses ----- | (294) |
| Increase (Decrease) in: | |
| Accounts Payable and Taxes Payable ----- | 16,499 |
| Accounts Payable - City of Bancroft ----- | 19,336 |
| Accrued Wages and Compensated Absences ----- | (5,820) |
| Meter Deposits ----- | 1,544 |
| Net Cash Provided (Used) by Operating Activities | <u><u>\$ 302,156</u></u> |

**BANCROFT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF BANCROFT, IOWA**

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Bancroft Municipal Utilities is a component unit of the City of Bancroft, whose funds are reported under a separate cover utilizing a fiscal year ending June 30. The City, which is a political subdivision of the State of Iowa, was incorporated in 1881 and operates under the Home Rule provisions of the Constitution of Iowa. The Utility officials operate the City Utility by the authority of Chapters 384 and 388 of the Code of Iowa. Bancroft Municipal Utilities provides electric service on a user charge basis to the general public and other governmental units within Kossuth County, Iowa.

Reporting Entity

For financial reporting purposes, the Utility has included all funds. The Utility has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Utility are such that exclusion would cause the Utility's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Utility to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Utility. The Utility has no component units which meet the Governmental Accounting Standards Board criteria.

Measurement Focus and Basis of Accounting

The Utility's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

In reporting its financial activity, the Utility applies all applicable GASB pronouncements for proprietary funds as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

The Utility distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Utility's principal ongoing operations. The principal operating revenues of the Utility are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Assets, Liabilities and Net Assets

The following accounting policies are followed in preparing the statement of net assets:

Cash and Cash Equivalents – For purposes of the statement of cash flows, the Utility considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. There were no cash equivalents as of December 31, 2007.

Accounts Receivable – The Utility has elected to record bad debts using the direct write-off method. Generally accepted accounting principles require that the allowance method be used to recognize bad debts; however, the effect of using the direct write-off method is not materially different from the results that would have been obtained under the allowance method.

Inventories – Inventories are valued at the lower of cost or market and are accounted for on a first-in, first-out basis.

Capital Assets – Capital Assets are carried at cost. The Utility computes depreciation on capital assets using the straight-line method. Estimated useful lives for the capital assets range from three to forty years.

Joint Plant Ownership

Bancroft Municipal Utilities is a member of NIMECA (North Iowa Municipal Electric Cooperative Association). As part of this cooperative, the Utility has a .347% undivided interest in an electric generation station known as George Neal Generating Station Unit No. 4. The Utility also has an undivided .56% interest in the Lehigh-Webster Transmission System. The Utility's ownership interests in the above are reflected on the statement of net assets as components of cash, inventories, and capital assets. The Utility's share of operations is included on the Statement of Revenues, Expenses and Changes in Net Assets as components of purchased power, Neal 4 fuel and generation, and depreciation expense.

In prior years, the Utility accounted for its purchased power on a net cost basis in which most credits were recorded as a reduction to purchased power costs. During the year ended December 31, 2007, the Utility changed how it accounted for these credits by recording all credits as income under the category Neal 4 / NIMECA Credits and Steam Service Income. The related purchased power costs were increased and a new category of expenses - Neal 4 Fuel and Generation - was added. There was no effect on the net increase in net assets as a result of this change.

Statement of Revenues, Expenses and Changes in Net Assets

For purposes of display, transactions deemed by management to be ongoing, major or central to the production of Utility sales are reported as operating revenues and expenses. Peripheral or incidental transactions are reported as non-operating revenues and expenses.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**Interest Capitalization**

The Utility capitalizes interest cost on borrowings incurred during the new construction or upgrade of qualifying assets. Capitalized interest is added to the cost of the underlying assets and is amortized over the estimated useful lives of the assets.

NOTE 2 - CASH AND INVESTMENTS

The Utility's deposits in banks at December 31, 2007 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Utility is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Utility Officials; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Utility's investments are categorized to give an indication of the level of risk assumed by the Utility at year-end. The Utility's investments are all category 1 which means that the investments are insured or registered or the securities are held by the Utility or its agent in the Utility's name. The following investments are carried at their amortized cost.

The Utility's investments at December 31, 2007 were as follows:

| Description | Carrying Amount |
|-------------------|--------------------|
| FHLMC Bonds ----- | <u>\$ 151,395</u> |

NOTE 3 - COMMON TRANSMISSION SYSTEM – IMPROVEMENT FUND

The Utility (along with other utilities) has signed an agreement with Corn Belt Power Cooperative (Corn Belt) which guarantees the use of transmission lines and also covers a sharing agreement with Corn Belt which was established to ensure all parties being able to service customers during periods of peak demand.

The improvement fund was established as a result of the Corn Belt agreement. Corn Belt assesses the Utility a monthly amount that accumulates for the purpose of maintaining and improving the transmission lines identified in the agreement. These monies have been remitted since May 1989. The Utility made contributions of \$22,800 in 2007 and interest totaling \$12,960 was credited to this fund.

NOTE 4 - CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2007 was as follows:

| | Balance Beginning of Year | Increases | Decreases | Balance End of Year |
|--|---------------------------------|-----------------|-------------|---------------------------|
| Capital Assets Not Being Depreciated: | | | | |
| Construction in Progress ----- | \$ 5,182 | \$ 39,909 | \$ - | \$ 45,091 |
| Land ----- | <u>9,863</u> | <u>-</u> | <u>-</u> | <u>9,863</u> |
| Total Capital Assets Not Being Depreciated | <u>15,045</u> | <u>39,909</u> | <u>-</u> | <u>54,954</u> |
| Capital Assets Being Depreciated: | | | | |
| Plant and Equipment ----- | 3,739,217 | 98,470 | - | 3,837,687 |
| George Neal Generating Station Unit No. 4 ---- | 1,246,829 | 1,992 | - | 1,248,821 |
| Lehigh-Webster Transmission System ----- | 49,690 | 4,596 | - | 54,286 |
| Corn Belt Plant Acquisitions ----- | <u>650,101</u> | <u>23,899</u> | <u>928</u> | <u>673,072</u> |
| Total Capital Assets Being Depreciated | <u>5,685,837</u> | <u>128,957</u> | <u>928</u> | <u>5,813,866</u> |
| Less Accumulated Depreciation for: | | | | |
| Plant and Equipment ----- | 1,711,402 | 116,711 | - | 1,828,113 |
| George Neal Generating Station Unit No. 4 ---- | 922,145 | 35,652 | - | 957,797 |
| Lehigh-Webster Transmission System ----- | 36,460 | 1,486 | - | 37,946 |
| Corn Belt Plant Acquisitions ----- | <u>264,376</u> | <u>14,767</u> | <u>928</u> | <u>278,215</u> |
| Total Accumulated Depreciation | <u>2,934,383</u> | <u>168,616</u> | <u>928</u> | <u>3,102,071</u> |
| Total Capital Assets Being Depreciated, Net | <u>2,751,454</u> | <u>(39,659)</u> | <u>-</u> | <u>2,711,795</u> |
| Total Capital Assets, Net | <u>\$ 2,766,499</u> | <u>\$ 250</u> | <u>\$ -</u> | <u>\$ 2,766,749</u> |

NOTE 5 - LONG-TERM DEBT

A summary of changes in long-term debt for the year ended December 31, 2007 is as follows:

| | Beginning Balance | Issuances | Redemptions | Ending Balance |
|--------------------------|----------------------|-------------|------------------|-------------------|
| 1999 Revenue Bonds ----- | <u>\$ 795,000</u> | <u>\$ -</u> | <u>\$ 95,000</u> | <u>\$ 700,000</u> |

The Utility's long-term indebtedness consists of a December 1, 1999 revenue bond issue, the proceeds of which were used for the purchase and installation of two Caterpillar 1825 KW engines. The bonds bear interest ranging from 4.30% to 5.65% with interest only due each June 1st (beginning June 1, 2000) and principal and interest due each December 1st (beginning December 1, 2000). Annual debt service requirements to maturity for the revenue bonds are as follows:

NOTE 5 – LONG-TERM DEBT (CONTINUED)

| <u>Year Ending December 31,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------------------------------------|-------------------|-------------------|-------------------|
| 2008 | \$ 100,000 | \$ 38,202 | \$ 138,202 |
| 2009 | 105,000 | 33,003 | 138,003 |
| 2010 | 115,000 | 27,437 | 142,437 |
| 2011 | 120,000 | 21,228 | 141,228 |
| 2012 | 125,000 | 14,627 | 139,627 |
| 2013 | 135,000 | 7,628 | 142,628 |
| | <u>\$ 700,000</u> | <u>\$ 142,125</u> | <u>\$ 842,125</u> |

For the year ended December 31, 2007, the Utility incurred total interest costs of \$42,648, all of which were charged to operations.

The bonds are payable solely from the net revenues of the Utility. The provisions of the bond issue include the creation and maintenance of a Sinking Fund, Reserve Fund and Improvement Fund.

Sinking Fund

Sufficient monthly transfers shall be made to this fund for the purpose of making the note principal and interest payments when due.

Reserve Fund

The amount to be maintained in this fund is equal to the lesser of 1) the maximum annual principal and interest coming due on all outstanding bonds in any succeeding year, 2) 10% of the stated principal amount on the outstanding bonds and 3) 125% of average annual principal and interest coming due on all outstanding bonds in any succeeding fiscal year.

Improvement Fund

A minimum of \$2,000 shall be deposited in the Improvement Fund each month until \$160,000 has been accumulated. Once the required balance has been reached, no further deposits in the Fund need to be made except to maintain it at such level. Money in the Improvement Fund shall be used solely for the purpose of paying principal and interest on the 1999 bonds when there shall be insufficient money in the Sinking Fund or Reserve Fund. To the extent not required for the payment of principal and interest, the funds may be used to pay the cost of extraordinary maintenance or repairs, renewals and replacements not included in the annual budget, payment of rentals on any part of the Utility or payments due for any property purchased as a part of the Utility, and for capital improvements to the Utility. Whenever, it shall become necessary to use money in the Improvement Fund, the payments required above shall be continued or resumed until it shall have been restored to the required minimum amount.

The balances in the sinking, reserve and improvement funds are combined and reflected on the balance sheets as restricted bond funds.

NOTE 6 - PENSION AND RETIREMENT BENEFITS

The Utility contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 3.70% of their annual covered salary and the Utility is required to contribute 5.75% of annual covered salary. Contribution requirements are established by state statute. The Utility's contributions to IPERS for the year ended December 31, 2007 were \$10,165, equal to the required contributions for the year.

NOTE 7 - COMPENSATED ABSENCES

Utility employees accumulate a limited amount of earned but unused vacation and personal leave hours to be carried forward for subsequent use or for payment upon termination, retirement or death. Employees can carry over no more than 80 hours of unused vacation leave from one calendar year to the next. The outstanding liability as of December 31, 2007 was \$3,461 based on rates of pay in effect on that date.

Utility employees earn sick leave days for subsequent use. The maximum accumulation is 36 days (288 hours) of sick leave. Employees are not paid for unused sick leave upon termination, retirement, or death. Accordingly, no accrual for unused sick leave has been recorded on the attached financial statements.

NOTE 8 - CONCENTRATION OF CREDIT RISK

Bancroft Municipal Utilities is a provider of electrical power to the residents and businesses of Bancroft, Iowa. Bancroft Municipal Utilities grants credit to these customers.

NOTE 9 - RELATED PARTY TRANSACTIONS**City of Bancroft**

Bancroft Municipal Utilities bills and collects charges for the City of Bancroft for the Water and Sewer Funds. The Utility subsequently remits to the Water and Sewer Funds the amounts billed on their behalf. Amounts billed by the Utility on behalf of the City had all been remitted to the City as of December 31, 2007. In addition, the Utility pays the City rent in the amount of \$1,500 per month for the use of office space and equipment. There are also various other transactions between the Utility and the City including payments received from the City for street lighting and other reimbursements as well as payments to the City for transfers in lieu of tax, various grants and other reimbursements. Amounts due from the City and due to the City are included in the balance sheet as Accounts Receivable – City of Bancroft and Accounts Payable – City of Bancroft and Other Payable – City of Bancroft.

Additional disclosures relating to transactions with the City of Bancroft are included in Note 10.

Others

There were business transactions between the Utility and the Utility Officials totaling \$2,538 for the year ended December 31, 2007.

NOTE 10 - PAYMENTS IN LIEU OF PROPERTY TAXES

The Utility has agreed to make voluntary payments to the City of Bancroft totaling 5% of annual gross revenues. These transfers are reflected on the Statement of Revenues, Expenses and Changes in Net Assets as Transfers to the City of Bancroft in Lieu of Property Taxes.

NOTE 11 - RISK MANAGEMENT

Bancroft Municipal Utilities is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Utility assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three years.

REQUIRED SUPPLEMENTARY INFORMATION

BANCROFT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF BANCROFT, IOWA

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**SCHEDULE OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS - BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2007**

| | | Budgeted Amounts | | Final to |
|--|---------------------|-------------------------|---------------------|------------------|
| | Actual | Original | Final | Actual |
| | | | | Variance |
| Revenues: | | | | |
| Charges for Service ----- | \$ 1,032,618 | \$ 959,622 | \$ 970,000 | \$ 62,618 |
| Use of Money and Property ----- | 51,745 | 52,824 | 42,000 | 9,745 |
| Miscellaneous ----- | 429,432 | 143,167 | 147,000 | 282,432 |
| Total Revenues | 1,513,795 | 1,155,613 | 1,159,000 | 354,795 |
| Expenses, Contributions and Transfers ----- | 1,386,839 | 1,083,952 | 1,094,000 | (292,839) |
| Increase (Decrease) in Net Assets | 126,956 | 71,661 | 65,000 | 61,956 |
| Balance at Beginning of Period | 2,953,531 | 3,016,072 | 2,953,531 | - |
| Balance at End of Period | \$ 3,080,487 | \$ 3,087,733 | \$ 3,018,531 | \$ 61,956 |

**BANCROFT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF BANCROFT, IOWA**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –
BUDGETARY REPORTING**

YEAR ENDED DECEMBER 31, 2007

In accordance with the Code of Iowa, the Utility annually adopts a budget following required public notice and hearing for the Enterprise fund. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. The budget is prepared on a basis consistent with U.S. generally accepted accounting principles.

Formal and legal budgetary control is based upon ten major classes of expenses, known as functions, not by fund. These ten functions are public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business-type and non-program. The Utility utilizes only the business-type function. During the year, a budget amendment increased budgeted expenses, contributions and transfers by \$10,048. This budget amendment is reflected in the final budget amounts.

During the year ended December 31, 2007, expenses, contributions and transfers exceeded the amounts budgeted by \$292,839.



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

To the Officials of
Bancroft Municipal Utilities
Bancroft, Iowa

We have audited the accompanying basic financial statements of Bancroft Municipal Utilities, a component unit of the City of Bancroft, Iowa, as of and for the year ended December 31, 2007, and have issued our report thereon dated December 29, 2008. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Utility's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the Utility's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Utility's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and another deficiency we consider to be a material weakness.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Utility's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of the Utility's financial statements that is more than inconsequential will not be prevented or detected by the Utility's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the Utility's internal control.

Business services that save you money:

- Business & individual tax preparation • Mid-year tax planning • Year-round tax planning
- Pension, estate & retirement planning • Budgeting & financial planning • Financial projections
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- Direct access to the principle ... always • Short phone consultations at no cost
- Early morning, evening & Saturday hours • Ten-day turnaround on financial statements
- Meetings at your place or ours

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item I-A-07 is a material weakness.

Compliance and Other Matters

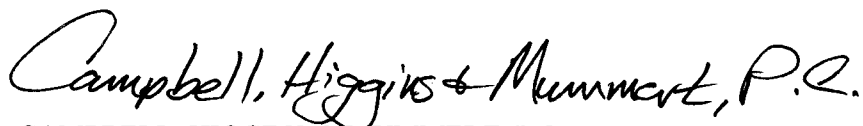
As part of obtaining reasonable assurance about whether the Utility's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the Utility's operations for the year ended December 31, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utility. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The Utility's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Utility's responses, we did not audit the Utility's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and customers of Bancroft Municipal Utilities and other parties to whom the Utility may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Utility during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



CAMPBELL, HIGGINS & MUMMERT, P.C.

Certified Public Accountants

December 29, 2008

**BANCROFT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF BANCROFT, IOWA**

**SCHEDULE OF FINDINGS
YEAR ENDED DECEMBER 31, 2007**

Part I: Findings Related to the Financial Statements:

Instances of Non-Compliance:

No matters were noted.

Significant Deficiencies:

- I-A-07 Segregation of Duties – One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the same person performs most of the accounting functions.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the Utility should review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response – Another person in the office will be utilized to help with accounting and banking.

Conclusion – Response accepted.

- I-B-07 Disbursements – We noted that one disbursement selected for testing was not supported by an invoice or other supporting documentation. We were also unable to trace one invoice to board approval.

Recommendation – Care should be taken in the processing of disbursements to ensure that all disbursements are properly supported by invoice or other documentation, and all disbursements are properly approved by the board.

Response – Disbursements will be closely watched and approved by the board

Conclusion – Response accepted.

- I-C-07 Financial Reporting – During the audit, we identified and proposed numerous adjusting entries which were material in amount. Adjustments were subsequently made by Utility personnel to correct these items.

Recommendation - The Utility should implement procedures to ensure that all activity and balances are properly recorded.

Response – Another person in the office will monitor entries monthly.

Conclusion – Response accepted.

**BANCROFT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF BANCROFT, IOWA**

**SCHEDULE OF FINDINGS
YEAR ENDED DECEMBER 31, 2007**

Part II: Other Findings Related to Required Statutory Reporting:

II-A-07 Certified Budget – Expenses during the year ended December 31, 2007 exceeded the amounts budgeted. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation – Although the budget was amended, care should have been taken to ensure the amendment was sufficient to prevent expenses from exceeding the budget.

Response – Steps are being taken to correct this.

Conclusion – Response accepted.

II-B-07 Questionable Expenditures – We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-C-07 Travel Expense – No disbursements of Utility money for travel expenses of spouses of Utility officials or employees were noted.

II-D-07 Business Transactions – Business transactions between the Utility and Utility officials or employees are detailed as follows:

| Name, Title, and Business Connection | Transaction Description | Amount |
|---|--------------------------------------|----------|
| Phil Jaren, Utility Official Owner of Office, Etc. | Office Supplies and Equipment | \$ 2,481 |
| Judy Vaske, Utility Official Part-Owner of Vaske Welding | Equipment Repairs and Maintenance | 57 |

In accordance with Chapter 362.5(11) of the Code of Iowa, the transactions with the officials do not appear to represent conflicts of interest since total transactions with each were less than \$2,500 during the calendar year.

**BANCROFT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF BANCROFT, IOWA**

**SCHEDULE OF FINDINGS
YEAR ENDED DECEMBER 31, 2007**

Part II: Other Finding Related to Statutory Reporting (Continued):

II-E-07 Bond Coverage – Surety bond coverage of Utility officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-F-07 Board Minutes – We were unable to obtain documentation of board approval as required by Chapter 372.13(6) of the Code of Iowa for one of the expenditures selected for testing. The list of approved bills was not always published in accordance with Iowa Code.

Recommendation – All expenditures should be approved by the board and this approval should be documented in the minutes. All approved bills should be published.

Response – All expenditures will be approved and published.

Conclusion – Response accepted.

II-G-07 Deposits and Investments – No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utility's investment policy were noted.

II-H-07 Revenue Bonds – No violations of the 1999 Revenue Bond provisions were noted.